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ABSTRACT

The characteristics, objectives, and application of the present Pennsylvania subsidy system are reviewed. The relative ability of each school district to support its educational program is equalized by the State paying each school district a share of the cost of its educational program. The State's share for each school district varies in relation to the ability of the school district to support its program. (MLF)

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FINANCING PENNSYLVANIA SCHOOLS

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U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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Presently the State Board of Education of the Commonwealth of Pennsylvania has authorized a study of the subsidy program. The resolution follows:

> "Be it resolved that the State Board of Education authorize the Council of Basic Education to review the present system of financing education in the Commonwealth of Pennsylvania in order to suggest ways in which the system might be improved. Be it further resolved that after such a study has been completed, a set of guided principles be submitted to the State Board of Education for adoption and recommendation to the Governor and General Assembly no later than December, 1970. Adopted March 13, 1970."

Accordingly the staff proceeded to accomplish the task assigned. Dr. J. Alan Thomas, Dean, Graduate School of Education, The University of Chicago, Dr. James A. Kelly, Teacher College, Columbia University, John W. Ingram, Director, State Division, Pennsylvania Economy League, Robert S. Lewis, Director of Research, State Division, Pennsylvania Economy League and Fred E. Hershey, Governmental Research Specialist were engaged to serve as consultants to the staff in various ways.

Meetings were arranged with the various interest groups and organizations.

Generally, two attitudes were presented. One, the present formula for distribution of state aid to education is satisfactory. The details of the formula should be altered to increase state funds available. Two, the two largest school districts in the state, are in serious difficulty; both management and labor (the school boards and the teacher unions) urged recognition by the state of the special problems existing in education in Philadelphia and Pittsburgh.

Foremost among the recommendations for change in the current system was the proposal that the maximum subsidy to the actual average instructional expense per pupil, in place of the $550 maximum. An assortment of other proposals were made, all resulting in more state aid; change 50-50 to 60-40, provide added money for year-round school and state payments for compliance with orders of the State Relations Commission. All of these were suggestions made to the committee.

The only proposal to come before the staff that was unique in nature was presented on behalf of a group of school directors or school districts from the southeastern portion of the state.

The recommendation was that distribution of state aid be accomplished on a system based on "the income per pupil" of a school district in place of the present market value per pupil. The proponents allege a greater equitability for their proposal, without defining their goal of equitability. They view the proposal as a single subsidy formula, but

compare its effects only with the basic instructional subsidy. Admitting a series of arbitrary decisions and lack of extensive research, they urged the philosophy upon the state and asked the state to test the idea.

The Staff examined the proposal, though not in detail. Philosophically, it's regressive in nature, with rich school districts getting richer and the poor getting poorer. A change in the constraints in the formula might change it to one which would favor poor districts, but it is not likely that the proponents would support such changes; however the concept of distribution of state aid based on income merits consideration.

My assigned topic, however, was to explain the Pennsylvania subsidy system, in general terms of characteristics and objectives. The explanation of the state subsidy program should begin with the philosophy.

When Act 580 was enacted, the philosophy back of the program was to provide for equalization of educational opportunity by providing subsidy to local school districts based on the market valuation back of each Weighted Average Daily Membership. This is a fiscal concept which determines the relative ability of each school district to support its educational program and which connects the state to paying each school district a share of the cost of its educational program, with the state's share for each school district varying in relation to the ability of the school district to support its program.

Note that the measure of the districts wealth is the market valuation, not the assessed valuation. The State Tax Equalization Board certifies the market valuation of each school district and the total market valuation on June 30 each year. The State Tax Equalization Board uses field representatives to check market valuations in each school district. The "aid ratio" is computed by using the Market Value which is two years behind the year to which the aid ratio is applied, and the WADM's of the previous year to which the aid ratio is applied. The total WADM's of a district divided into the Market Valuation of the districts gives the Market Value per WADM. The total state Market Values divided by the total state WADM's gives the state average Market Value behind each WADM. The formula for calculating the aid ratio is District Market Value ÷ by State Market Value x .50 (representing the state's share). This result is deducted from 1.000 giving the aid ratio.

The state philosophy expressed by using .50 in the aid ratio calculation is often misunderstood, misquoted and sometimes even referred to in an unfriendly manner by those who erroneously interpret it to mean that each district will receive 50 per cent of its subsidy from the state.

Actually what the state philosophy means is that the state's share of the total reimbursable cost (for the state) shall be 50 per cent. This means that if the total state subsidy paid to all the local school districts is 50 per cent of the total reimbursable cost of all the districts, then the state is fulfilling its philosophy, however, all of us can readily see that as the total reimbursable cost rises and more and more districts

are approaching or exceeding the $550 limit placed by the state, then the state portions will not reach the 50 per cent level.

Reimbursable instructional expense is defined as costs of administration, instruction, attendance services, operation of plant, maintenance of plant, fixed charges such as social security, retirement and hospitalization, food services, student body activities, community services and outgoing transfers. Deducted from their expenses are homebound expenses, payments to community colleges, tuitions and other payments from patrons, special education of exceptional pupils, payments for vocational education, driver education, adult driver improvement programs, area redevelopment projects, manpower training projects, Section 2508.3, projects for underprivileged adults, ESEA Title I, II and III, the Economic Opportunity Act (88-452) or Headstart, etc. and incoming transfers. Not included in the reimbursable expenses are health services, pupil transportation costs, capital outlay and debt services. Separate reimbursements are provided for health, pupil transportation and approved buildings.

The Commonwealth of Pennsylvania through the Department of Health reimburses districts for the cost of physical exams not to exceed 80 cents for each child enrolled and for dental service 40 cents for each child enrolled. If a school hygienist is employed, costs of the dental hygiene services are not to exceed a limit of $1.00 per enrolled child. This payment would be in lieu of the 40 cent per pupil for dental examinations. Subsidy for school nurse service is $3.50 times the number of pupils enrolled.

Pupil transportation is reimbursed on the basis of buses approved by the State Police and approved reimbursable costs. The State Board of Education regulations provide for the approved cost to be based on a formula by the overhead daily rate, operating daily rate per mile, driver's daily wage and administrators cost for contracted approved buses, but not for station wagons or vans which are given a flat rate.

District owned buses are reimbursed for depreciation of the approved purchase price up to 10 per cent or $700 per year for 15 years or less until the approved purchase price has been amortized.

The excess cost provision of Act 95 provides that no district will have to raise more than .5 mills times its market valuation to pay the approved costs of transportation.

Recently the legislature enacted a law which transferred responsibility for control by legislative enactment of minimum standards for school buses and drivers competency and physical exams to the Bureau of Traffic Safety.

School districts are permitted to transport all school children, however, reimbursement is only approved for those children transported to and from school, for elementary pupils living 1-$\frac{1}{2}$ miles and secondary

pupils living 2 miles from school by the nearest public highway. Nonpublic school children are eligible for transportation along board approved established routes and must be in the same direction the bus is traveling.

School buildings are reimbursed on the approved cost by per pupil cost based for building construction. Act 96 increased the per pupil cost for elementary buildings to $2300 per pupil and for secondary buildings to $3000 per pupil times the rated pupil capacity. Actual state reimbursement is based on the percentage of the reimbursable cost as to the total cost. This may be any percentage depending on how expensive the building is. Such a percentage may be 80 per cent. The annual lease figure is then calculated for the number of years necessary to pay for the bonds. The beforementioned percentage is taken off the annual lease. This figure multiplied by the aid ratio gives the state reimbursement to the local district.

Act 580 provided that the school districts could use the aid ratio or the capital account reimbursement fraction for building reimbursements. The aid ratio is currently used by all but 13 districts for that purpose.

In the case of districts eligible for density or sparsity payments either the larger of the aid ratio or 50 per cent is used. This change to the use of the aid ratio greatly increased the amount of subsidy to local school districts.

Special subsidy is provided for all districts who have pupils from poverty homes. Payment for poverty students was raised from $90 to $120 in 1969-70. Poverty pupils residing in each district is based on children coming from families whose income is less than $2000 according to the 1960 census plus the number of children receiving aid for dependent children whose families receive more than $2000 total income as certified by the Department of Public Welfare. In 1969-70, 652 school districts out of 669 had a total of 306,438 poverty children for which the state subsidy amounted to $36,772,560.

In 1970-71, twenty-five districts are receiving extra subsidy based on density of population. School districts with 10,000 or more populations per square mile are eligible for this subsidy. Two districts receive super density based on a population of 50,000 or more per square mile. Philadelphia and Pittsburgh qualify for this. Super density subsidy is based on the actual approved instructional expense per WADM times 15 per cent. Super density was enacted to help Pittsburgh and Philadelphia help solve their financial problems which are partly due to heavy concentrations of socioeconomically deprived pupils.

Regular density is calculated for 1970-71 subsidy as a maximum of $250 per weighted pupil times the aid ratio or .375 whichever is greater. The excess expenditure above $400 to an excess of $250 is used. This amount is calculated to compute the density subsidy. Act 96 provided that the per pupil amount paid for density and sparsity would

be deducted from the expense per pupil before calculating the basic subsidy. This greatly reduces the actual extra subsidy such districts receive. Districts with aid ratios up to .5000 gain an increased amount while districts above .5000 gain a lower per pupil amount than the .5000 aid ratio districts. This has the effect of giving the more affluent districts more aid per pupil than the less affluent districts. A study recently completed revealed that districts expending $550 per pupil with an aid ratio of .1000 nets $51.25 per pupil while a district with an aid ratio of .6000 nets $36.00 per pupil for density.

The true gain per pupil ranged from 48.14 per cent to 100 per cent for the twenty-five districts. This is really an equalization procedure working in reverse. Perhaps the answer should be a revised formula which would be based on the number of socioeconomically deprived pupils residing in each school district in the state. Identification of such pupils could be determined by using a group of variables which would identify such pupils. A formula could be added to the basic formula allowing a per pupil amount times the number of such pupils in each school district. Then the arbitrary cut-off figure of 10,000 per square mile would not favor districts fortunate to have a small geographical area.

Sparsity subsidy will be paid to 138 school districts in 1970-71. The qualifying criterion is a population of fewer than 50 people per square mile. Thus 24.4 per cent of the state's 669 school districts qualify for special density and sparsity subsidies. The deduct feature here means that the actual net gain per pupil will be the difference between the aid ratio and 100 per cent for districts expending less than $550 per WADM. A district with an aid ratio of .70 will gain 30 per cent of the calculated per pupil amount due to density or sparsity while one with an aid ratio of .1000 will gain 90 per cent of the calculated per pupil amount. Districts receiving super density have no deduction from the basic subsidy.

Special education pupils are educated in county classes or district operated classes. County operated classes are paid for in advance on the basis of the budget, but district operated classes are reimbursed on the basis of approved actual per pupil expenditures. When the special classes are conducted by the school district, the Commonwealth pays the difference between the instructional cost per pupil in special classes and the cost per pupil in regular classes. In addition, the regular instruction subsidy is paid for special education children by including them as WADM for the purpose of computing the states share of the basic subsidy plus any other subsidies for which the resident district qualifies by counting pupils in special classes as WADM.

When special classes or schools are established by the County Board the resident district pays the tuition rate computed for the resident districts in regular classes per WADM. This amount is deducted from the residents districts subsidy before it is paid them by the state.

The balance of special education costs in county classes are paid by the state. The state also pays the states share of approved trans-

portation costs and the regular instruction subsidy by crediting the WADM of children in special classes to districts of residence.

When socially or emotionally disturbed children are placed in approved institutions or day schools for children between the ages of 6 and 21 the resident district pays 25 per cent of approved tuition. The state pays 75 per cent of approved tuition, tuition not to exceed $2310 per school year.

By administrative ruling the Department of Education pays a fixed share currently 75 per cent of resident costs for day students who are deaf, blind, afflicted with cerebral palsy, brain damage or muscular dystrophy. Subsidies are paid to approved public or private institutions which furnish the facilities as follows: for children between the ages of 6 and 21 - 75 per cent of approved tuition and maintenance costs not to exceed $4200 for the total. The resident district pays 25 per cent of the approved tuition and maintenance costs, not to exceed $4200 for the total, and the parent is billed for all costs in excess of $4200.

For each child under 6 and each person over 21, the state pays 100 per cent of approved tuition and maintenance costs not to exceed $4200 for the total. The parent is billed for tuition and maintenance costs in excess of $4200.

For each child under 6 attending an approved program in a district other than his home district, the state pays 100 per cent of approved tuition costs not to exceed $4200 for the total.

For each person for whom residence in a particular school can not be established, the state pays 100 per cent of approved tuition and maintenance costs not to exceed $4200 for the total.

The cost of readers, helpers, guides, aids, appliances, etc. for pupils enrolled in public schools is included in approved reimbursable costs subject to the subsidy limit.

Subsidy for driver education is provided every school district complying with the standardized driver education program established by the Department of Education. The Motor License Fund provides an amount equal to the number of pupils who have completed the high school standardized driver education program times $35. Both public and nonpublic high schools are eligible.

The state will reimburse school districts, vocational school districts and county boards of school districts on account of vocational instruction as follows:

Vocational home economics	$20 per pupil in ADM
Vocational agriculture	$35 per pupil in ADM
Vocational Industrial Education	$35 per pupil in ADM
Vocational Distributive Education	$50 per pupil in ADM

For vocational extension and preemployment training: 80 per cent of the sum expended by the district for compensation of vocational extension teachers and supervisors, with maximum reimbursement of $4.00 per hour. A ceiling is placed on supervisory salaries (not in excess of 20 per cent of the sum for teachers' salaries).

Travel expenses are subsidized by 80 per cent of the sum expended by a district for approved travel of teachers, coordinators, supervisors and directors of vocational education.

School districts are reimbursed for pupils attending area vocational-technical schools. The approved per pupil cost is excess of actual instruction costs in the regular high school program up to a maximum of $75 per pupil. Area vocational-technical schools may be reimbursed up to 50 per cent for purchase and improvement of equipment.

Using budgeted data approximately 72.6 per cent of state funds for public education in Pennsylvania were allocated to the foundation program for 1969-70. The foundation program increased from $562,571,271 in 1968-69 to $730,555,000 in 1969-70. The estimate for 1970-71 is $807,779,844.

It is interesting to note that in 1968-69 28 per cent of the districts were expending more than $550 per WADM for approved instructional expenditures.

In 1969-70 53 per cent were exceeding the $550 figure. In 1970-71 it is estimated that 80 per cent will exceed the $550 limit.

The average instructional expenditure in 1968-69 was $528.88; in 1969-70 $609.52 and estimated to be $665.36 in 1970-71. The state subsidy for school buildings increased from $50,000,000 to $79,315,000 in the same period or 7.97 per cent of the total.

The grandfather clause was written into Act 580 to insure that no district would receive less subsidy per weighted pupil than they received under the previous law. Forty-three school districts under the guarantee for subsidy paid out in 1969-70.

Since 25 of these guarantee districts were expending more than $550 per WADM the only way they can exceed the guarantee is by increasing the $550 ceiling limit or a change in their aid ratio. Thirty-five of the forty-three districts cannot exceed the guarantee although they do expend $550 per WADM.

A special bootstrap subsidy was applied to school districts which expended less than $400 per WADM for instruction only for the 1969-70 school year.

Thirteen districts qualified. Districts which receive the bootstrap subsidy may not receive sparsity density payments in the follow-

ing year, and must absorb a local share of the base amount equal to 12.38 mills on market value.

A hidden subsidy sometimes forgotten by local school officials and directors are those paid by the state into the Public School Employes Retirement Fund and Social Security.

The state, school personnel and the local district contribute approximately one-third each to the cost of retirement annuities. The state contribution amounted to $38,587,494 in 1969-70. In Social Security the state shares equally with school districts the cost of the employee's contribution. The state contribution amounted to $28,614,980.

The state also pays the minimum salaries of county superintendents, assistant county superintendents and county supervisors of special education and their expenses. The state pays the expenses of county boards and school directors and fees of their attorneys (maximum of $120 per director).

The state may provide grants to assist school districts in meeting matching requirements for federal grants received for manpower development and training programs (subject to availability of funds) and for matching federal grants received for educational programs for Disadvantaged Youth, such as Headstart, Preschool and Neighborhood Youth Co-op Programs. In 1968-69 thirty-five districts participated in the program. The state contributed $500,000. The state also appropriated $500,000 to give financial relief to school districts faced with financial emergencies.

In lieu payments are made by the state or federal government to units of government to subsidize those units for taxes of which they are theoretically deprived by government acquisition of taxable land within their boundaries. Eight cents per acre are paid by the Department of Forests and Waters for state lands acquired for Water Conservation or Flood Control. The state pays out of the general fund the current school tax rate on private property times the assessed value at the time of acquisition of the state land in the district. The Game Commission pays eight cents per acre for state game land located in the school district.

For recreational lands under "Project 70" a percentage of total tax base acquired times total real property tax yield (not less than eight cents per acre) is paid by the state.

This has been an attempt to give you a quick review of the present subsidy system with its component parts. I noticed that your association has several resolutions suggesting changes in the present subsidy system. The Bureau of Research is presently examining various component parts of the subsidy system to determine if it treats the various districts fairly and in accordance with the equalization principle.

We welcome any suggestions you may have to improve the subsidy system. Either write or drop in to see us when you are in Harrisburg.